



Discussion Papers on  
HIV/AIDS Care and Support

**Community-Based Economic Support  
for Households Affected by HIV/AIDS**

Prepared by  
Jill Donahue

Discussion Paper Number 6

June 1998

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### About HTS

The Health Technical Services Project provides short- and medium-term technical assistance to USAID — specifically, to regional bureaus, regional and country missions, and the Office of Health and Nutrition in the Center for Population, Health and Nutrition of the Bureau for Global Programs, Field Support, and Research (G/PHN/HN). This technical assistance supports USAID programs in maternal and child health, nutrition, health policy reform, HIV/AIDS, and environmental health. HTS activities are concentrated in three broad technical areas: project design, policy and strategy, and evaluation and monitoring.

HTS's work is grounded in the four complementary values that guide USAID's efforts to reengineer its operations:

- # a customer focus
- # participation and teamwork
- # empowerment and accountability
- # management for results.

## Foreword

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**T**he U.S. Agency for International Development seeks to develop and promote effective strategies for providing basic care and support to those affected by HIV/AIDS. This series of Discussion Papers on HIV/AIDS Care and Support represents a first step in this effort.

HIV/AIDS care and support mitigate the effects of the pandemic on individuals, families, communities, and nations. Such interventions are an important component of the overall response to HIV/AIDS because they increase the impact of prevention strategies and mitigate the negative consequences of the epidemic on the prospects for sustainable development.

This series of Discussion Papers covers several key issues related to care and support:

- # Human rights and HIV/AIDS
- # Palliative care for HIV/AIDS in less developed countries
- # Preventing opportunistic infections in people infected with HIV
- # Psychosocial support for people living with HIV/AIDS
- # Community-based economic support for households affected by HIV/AIDS
- # Responding to the needs of children orphaned by HIV/AIDS
- # Systems for delivering HIV/AIDS care and support.

Each paper provides a preliminary review of some of the current thinking and research on these broad and complex topics. It is important to note that the papers are not meant to be comprehensive — time and resource constraints prevented the authors from reviewing all the relevant literature and from contacting all the people who have valuable experience in these and related fields. Nor have they been subject to technical or peer review. Their purpose is to stimulate a broad conversation on HIV/AIDS care that can help USAID define its future program activities in this area. We welcome your participation in this process.

## Discussion Papers on HIV/AIDS Care and Support

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Two additional papers on the topic of voluntary counseling and testing were prepared with USAID support:

# The Cost Effectiveness of HIV Counseling and Testing

# Voluntary HIV Counseling and Testing Efficacy Study: Final Report

These two papers are available from the IMPACT Project, Family Health International, 2101 Wilson Boulevard, Suite 700, Arlington, VA 22201; [www.fhi.org](http://www.fhi.org).

Please direct your requests for copies of papers in the Discussion Series on HIV/AIDS Care and Support and your comments and suggestions on the issues they address to the Health Technical Services (HTS) Project, 1601 North Kent Street, Suite 1104, Arlington, VA 22209–2105; telephone (703) 516-9166; fax (703) 516-9188. Note that the papers can also be downloaded from the Internet at the HTS Project's web site ([www.htsproject.com](http://www.htsproject.com)).

—Linda Sanei, Technical and Program Advisor,  
Health Technical Services Project

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# Community-Based Economic Support for Households Affected by HIV/AIDS

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Because the burden of HIV/AIDS is felt first by the families of those stricken, the first line of response should be to mitigate the impact on those households, in particular, by improving their income-earning capacities. When families are no longer able to cope, however, they turn to members of their community, and projects that strengthen communities' coping mechanisms will become increasingly significant as an epidemic continues. Planners should therefore consider a two-pronged approach to mitigating the socioeconomic consequences of HIV/AIDS on affected communities: building the economic resources of households, primarily through microcredit programs, and supporting the creation of community safety nets.

There are only limited data on the macroeconomic impact of HIV/AIDS in the countries most heavily affected. In part, this is because intervening factors such as inflation, drought, and economic restructuring activities make it difficult to establish a direct relationship between HIV/AIDS and overall economic development, as measured by GDP. Yet, according to the World Bank, HIV infections are a leading cause of adult illness and mortality in many countries (World Bank 1993), striking a large percentage of the adult population of many countries at the peak years of productivity and income-earning capacity. The World Bank simulations indicate that the effects of an HIV/AIDS epidemic on savings and productivity slows per capita income by an average of 0.6 percent in the ten worst-affected Sub-Saharan countries (World Bank 1993).



Even if the impact of HIV/AIDS is not apparent at the macro level, however, it “doesn’t mean...countries aren’t paying a price; it’s just being exacted at the local level” (Fairclough 1995). The greatest macroeconomic impact of HIV/AIDS comes from the high costs of treatment and the need to provide assistance to the “survivors.” In other words, families and communities coping with AIDS-related illness and death shoulder much of the burden, and the epidemic therefore takes the heaviest toll at the household and community level (Over 1998).

The Human Development Index (HDI) may be a more accurate gauge of the macro-level effects of HIV/AIDS than GDP. The HDI was developed by the United Nations Development Programme (UNDP). The simplest version is calculated using four variables: life expectancy, adult literacy, average educational attainment, and real GDP per capita.<sup>1</sup>

A research team from the Harvard Institute of International Development (HIID) studied the effects of HIV/AIDS on the HDI for nearly 60 sixty countries for the UNDP’s Regional HIV and Development Project. The team found that the HDI improved much more slowly in countries with severe epidemics; on average, a 1 percent increase in HIV/AIDS prevalence caused a loss of human development of 2.2 years, as measured by the HDI. For example, the study showed that Zambia’s HDI would have been almost 20 percent greater in 1992 without the epidemic (Godwin 1997).

The impact of HIV/AIDS is more apparent among private sector companies. Many firms see their expenses rise and profits dip when HIV/AIDS begins to affect their employees. These companies face significant increases in burial compensation and bereavement benefits. Absenteeism due to illness or attendance at funerals reduces productivity. The costs of training new employees or retraining existing employees to fill vacancies also affect productivity and profits. At one Zambian company, hours lost to sickness and funerals increased more than threefold in one year because of AIDS. Another company reported that its costs more than doubled for medical care, funeral grants, and salary compensation for deceased employees’ families between 1991 and 1993. In Kenya, the cost of labor is projected to rise as much as 8 percent because of workforce reductions from the epidemic. (USAID 1996)

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<sup>1</sup>The specific formula is included in UNDP (1993).

### THE IMPACT ON HOUSEHOLDS

When HIV/AIDS strikes a household, the stress of illness, death, and uncertainty about the future can be enormous. Household resources erode quickly, as adults become caregivers for sick family members, get sick themselves, or take in the orphaned children of relatives, neighbors, and friends. The slide from relative comfort to destitution can be frighteningly quick. Poor families that are already struggling to make ends meet are even more vulnerable to the consequences of HIV/AIDS.

Ordinarily, it is a woman's duty to care for sick family members or relatives and for children. This obligation forces many women to neglect subsistence crop production or activities that generate income for the household. Labor diverted from these essential activities can lead to food insecurity. Redistribution of household assets, especially as a result of "property grabbing" by relatives of a deceased husband/father, disenfranchises women and children, pushing them further toward poverty. In many countries, widowed grandmothers take on the burden of caring for their grandchildren and often face severe economic stress as a result.

Children in families affected by HIV/AIDS are particularly vulnerable, not only physically, but also emotionally.<sup>2</sup> Their nutritional and health status usually deteriorates, and they are often taken out of school to compensate for lost labor and/or to conserve economic resources (Over 1998; Hunter and Williamson 1998a). They have few, if any, opportunities to express the psychosocial distress they experience while caring for sick family members or watching them die. This distress can be particularly acute when they must watch their parents die. An adolescent who becomes a double orphan (i.e., loses both parents) is likely to become the head of his or her household, primarily as a means to retain family land and other assets and to keep siblings together.

Overall, for most households, issues related to poverty subsume the other effects of HIV/AIDS — illness doesn't cause poverty, but it worsens its legacy. For example, as HIV/AIDS exacerbates a household's poverty, the women and girls are more likely to engage in commercial sex work to earn much-needed income. This drastically increases their risks of contracting and spreading HIV and other sexually transmitted infections (STIs). Family members who are forced to migrate

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<sup>2</sup>See also the discussion paper in this series on responding to the needs of children orphaned by AIDS (Hunter and Williamson 1998b).

in search of work also increase their exposure to risky sexual behavior. In addition, worsening poverty can begin to break down the cohesion of communities, weakening traditional restraints on promiscuity (Godwin 1997).

The economic impact of HIV/AIDS can be long term. Research conducted for UNDP's Economic Implications of HIV project in Philippines, India, and Thailand revealed that coping with HIV/AIDS crippled household income-earning capacity and that it often took several years after a death to recover (Godwin 1997). Similarly, the long-term economic prospects of children can be permanently damaged when they suffer from poverty-induced malnutrition or are withdrawn from school to meet their households' needs for income. Finally, HIV/AIDS can deepen and extend national poverty, increasing the number of indigent households and communities (Over 1998).

A household's ability to offset the impact of HIV/AIDS depends on its capacity to stabilize the internal household economy, its access to the resources of extended family members, and the ability of community members to provide temporary relief. Seeking relief from family, friends, and neighbors is an important coping mechanism for households affected by HIV/AIDS, but it is not unique to the epidemic. This type of community "safety net" — the provision of short-term relief and assistance by individuals and organizations within the community to those in need — is a common response to an array of disasters, natural and man-made.<sup>3</sup>

Another way households cope with the strains of HIV/AIDS is through income generation, a strategy long used in response to crises and economic stresses from many causes. In urban settings, families that lose the income of adults working in either the private or public sector as a result of illness or death turn to self-employment in the informal sector. Rural households that cannot meet their needs for food or cash through agricultural production undertake other income-generating activities.

An essential element of the dynamics affecting families' decisions about their household economy is their perceptions of and attitudes toward their "risk environment." A household's risk environment includes the probability of an economic loss and the size of the potential or actual loss. Households also consider the likely impact of a loss on their economic security. Households manage their internal economies by developing strategies to reduce economic risk (by lessening

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<sup>3</sup>See, for example, the importance of this social safety net during recent droughts in Malawi in Save The Children/UK (1996).

their exposure to it) and to manage loss (by mitigating the negative consequences of a potential or actual loss).

### Reducing Economic Risk

Households can lessen their exposure to economic risk by:

- # Choosing income-generating activities that carry few risks: Low-risk businesses are associated with lower, albeit steady returns. Poorer households cannot afford to take chances on higher-risk endeavors.
- # Diversifying household crop-production and income-generating activities: Diversification can include engaging in wage-earning labor, running one or more microenterprises, and cultivating a mixture of subsistence and cash crops.
- # Building up insurance mechanisms: These include savings that households can draw upon in case of a loss, either cash savings or in-kind assets such as livestock or jewelry. Preserving extended family and community ties is also an insurance mechanism because such ties allow families to share risk and gain access to additional resources.

### Managing Loss

During times of crisis, whether natural or man-made, households employ a predictable set of loss-management techniques to alleviate the worst effects on their well-being. These techniques can be divided into three stages, which are not unique to the HIV/AIDS pandemic, but are common responses to disaster and loss.<sup>4</sup> The three stages relate to the size and severity of the loss and the initial stability of the household economy:

- # Stage I: The loss-management strategies employed are reversible and have little or no impact on the household's future income-earning or production capacity.
- # Stage II: The strategies are difficult to reverse because they involve the sale of productive assets — typically at less than their full value — which undermines

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<sup>4</sup>See, for example, Over (1998), Zambia Ministry of Health (1997), Tibaijuka (1997), Barnett and Blaikie (1990), Corbett (1988), Williamson and Donahue (1996).

future household capacity to generate income and produce food. Most families will reduce their consumption and tolerate considerable hunger before they endanger their prospects in such a way.

- # Stage III: When the household becomes destitute, few, if any, coping mechanisms remain available.

Figure 1 illustrates the types of strategies employed by households to manage loss at these three stages. A household's ability to avoid Stages II and III depends on the resiliency of its Stage I strategies. The effectiveness of Stage I strategies, in turn, depends on the success of risk-reduction activities. Poorer families, who are more sensitive to risk, typically initiate low-risk/low-return income-generating activities, which reduces their ability to shore up resources and magnifies their vulnerability to loss, including from HIV/AIDS.

Figure 1. The Three Stages of Loss Management	
Stage	Loss-Management Strategies
I. Reversible Mechanisms and Disposal of Self-Insuring Assets	<p>P Seeking wage labor or migrating temporarily to find paid work</p> <p>P Switching to producing low-maintenance subsistence food crops (which are usually less nutritious)</p> <p>P Liquidating savings accounts or stores of value such as jewelry or livestock (excluding draft animals)</p> <p>P Tapping obligations from extended family or community members</p> <p>P Soliciting family or marriage remittances</p> <p>P Borrowing from formal or informal sources of credit</p> <p>P Reducing consumption</p> <p>P Decreasing spending on education, non-urgent health care, or other human capital investments</p>
II. Disposal of Productive Assets	<p>P Selling land, equipment, or tools</p> <p>P Borrowing at exorbitant interest rates</p> <p>P Further reducing consumption, education, or health expenditures</p> <p>P Reducing amount of land farmed and types of crops produced</p>

III. Destitution	P	Depending on charity
	P	Breaking up household
	P	Distress migration

### THE IMPACT ON COMMUNITIES

As an HIV/AIDS epidemic progresses, and people begin to die in significant numbers, the social and economic effects reverberate throughout communities. In many countries throughout the world, funerals are community events in which everyone must participate. Contributions to offset burial costs are mandatory, the deceased family needs help to dig the grave, and everyone provides comfort to the surviving family members during the mourning period. Traditional mourning periods often forbid planting and other agricultural work for anywhere from one to seven days (Tibaijuka 1997; Barnett and Blaikie 1990). In addition, if there is no extended family to take in orphans, the community frequently steps in or helps surviving adolescent siblings who take over the household.

HIV/AIDS stretches traditional social systems beyond their capacity. As individual households' resources decline, the assistance available from the community dwindles (Save The Children/UK 1996; Corbett 1988). The hired labor pool shrinks and becomes expensive, forcing communities to reduce their crop production. There may be fewer teachers and health workers to provide services to the community, reducing access to education and health care.

Individuals concerned for their friends, neighbors, and extended family members often organize to provide moral support and material relief to households affected by HIV/AIDS. In effect, they create a safety net for the people in their community whose immediate survival is threatened. When HIV/AIDS overtakes extended family support mechanisms, the community's role becomes critical. Such community efforts reinforce families' ability to cope with their burdens. In fact, many development workers involved in HIV/AIDS projects believe that strengthening spontaneous community-based initiatives is as urgent as preventing the further spread of HIV (USAID 1996; Barnett and Blaikie 1990; Hunter and Williamson 1998a).

Community-based organizations (CBOs) initiate a variety of activities that together create a safety net for vulnerable families (Tibaijuka 1997; Barnett and Blaikie 1990; Hunter and Williamson 1998a). Caring for the sick and for orphans tends to be the most visible impact of HIV/AIDS and the first concern of many CBOs. Other CBO activities include:

- # Creating awareness throughout the community about the causes and consequences of HIV/AIDS, sometimes via drama clubs
- # Eliciting full community participation to organize responses to HIV/AIDS
- # Mobilizing support among local religious, business, political, and other leaders
- # Identifying vulnerable children and families and monitoring their condition
- # Providing day care services for children in families headed by grandparents, adolescents, and widows
- # Organizing home visits to provide moral support to affected families and to listen to their problems
- # Contributing labor to affected household to help with chores, repairs, and agricultural work
- # Engaging in communal income-generating projects to provide cash and/or in-kind support to the neediest households (e.g., food and clothing)
- # Paying for school fees, uniforms, and medical expenses.

### **A TWO-PRONGED APPROACH TO PROVIDING ECONOMIC SUPPORT**

Because the burden of HIV/AIDS is felt first by the families of those stricken, the first line of response should be to mitigate the impact on those households (Hunter and Williamson 1998a), in particular, by improving their income-earning capacities. When families are no longer able to cope, however, they turn to members of their community, and projects that strengthen communities' coping mechanisms will become increasingly significant as an epidemic continues.

Planners should therefore consider a two-pronged approach when designing projects to mitigate the socioeconomic consequences of HIV/AIDS on affected communities. Two technical assistance strategies represent complementary and interrelated aspects of this approach:

- # Building the economic resources of households
- # Supporting the creation of community safety nets.

Program interventions should assist households in both reducing their exposure to economic risk and improving their ability to cope once a loss has occurred.

Households that have confidence in their loss-management strategies will be able to initiate higher-risk and presumably more profitable enterprises.<sup>5</sup> Households that have an adequate coping “package” will be able to recoup their assets once a crisis has passed.

Nonetheless, an essential element of any household’s coping package is access to community resources — short-term relief and emergency solutions that create a safety net for households in desperate need. If too many families slide into destitution, the community safety net can rapidly be overwhelmed, with fewer people within the community able to share their resources just when demand for such resources increases. Minimizing the number of families in need of relief therefore increases the chances that the community can maintain a safety net for its most vulnerable members. In fact, staff members of nongovernmental organizations (NGOs) working on HIV/AIDS projects in Zambia reported little success in developing community-created safety nets when the majority of people were seriously concerned about their next meal.<sup>6</sup>

The integrity of assistance provided under either aspect of this two-pronged strategy — building household resources and supporting the creation of community safety nets — depends on their successful interaction. The mitigating effects of relief assistance at the household level are not sustainable in and of themselves, even if the resources of the community safety net are secure. The safety net sustains the household economy only as long as material relief continues or until the household is out of danger.

Figure 2 graphically illustrates the interrelationship between these two types of assistance. It also identifies the primary targets of each, by defining broad categories of households as “poor,” “poorer,” or “destitute.” This categorization is not static over time; individual households may move among these categories. For example, a particular HIV/AIDS-affected family may not be poor relative to other households in the community, but they could easily become poor, or even slide directly into destitution, depending on the resources available when a crisis hits. Because issues related to poverty tend to subsume the impacts of HIV/AIDS, as

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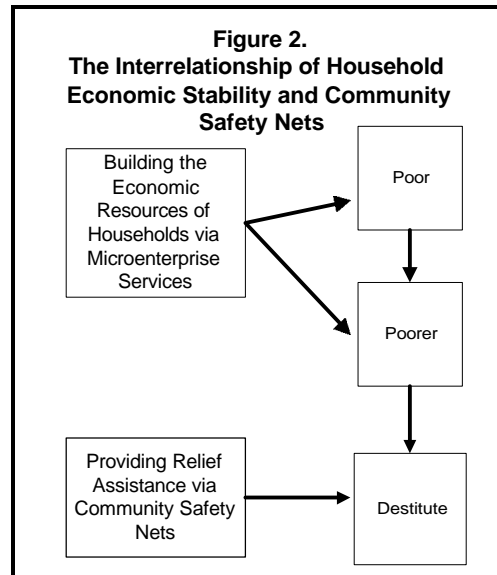
<sup>5</sup>The following sections on risk and loss management draw from Dunn, Kalaitzandonakes, and Valdivia (1996).

<sup>6</sup>This comment was made to the author during a recent trip conducted for Project Concern International, USAID/Zambia, and the Displaced Children and Orphans Fund. The NGO staff members were working in the poorest Livingstone communities heavily affected by HIV/AIDS. (Report forthcoming.)



noted above, these categories apply to all households, regardless of whether they have been affected by HIV/AIDS. However, the nature of the epidemic virtually guarantees that many of the poorest and destitute families are affected in some way by HIV/AIDS.

As Figure 2 shows, relief assistance provided through community safety nets is targeted primarily to “destitute” households. “Poor” and “poorer” households (i.e., relative to others in the community) are targeted by interventions to stabilize household resources.



One issue that demonstrates the interrelatedness of these two types of assistance is the education of children. Keeping children in school is a challenge that many HIV-affected households can't meet, even when education is highly valued. Children frequently fill the labor and income gaps created when productive adults become ill, are caring for terminally ill family members, or are deceased. Withdrawing children from school is a Stage I or II loss-management strategy that is reversible (the children can be re-enrolled later). Family decision-makers will generally do everything in their power to avoid the often-irreversible strategies available during the later stages of loss management, particularly selling productive assets.

Assistance from community groups can make it possible for households to keep children in school by providing income-generating opportunities. In Malawi, community groups concerned over the number of children not attending school responded in two ways. First, they visited surviving parents and/or guardians to impress upon them the importance of education to the future of the children. Second, they discussed what they, as community members, could do to make it possible for more children to go to school. One solution was to identify volunteers to take over some of the children's tasks or assist their families with other household work. Often, this was enough to allow the parent/guardian to manage their income needs without sacrificing education. In other cases, the community group supplied material help, such as school uniforms, which freed up household resources that could be used for schooling. Community groups in Zambia responded to the same concern by strengthening community-based schools, which are cheaper and closer to home.

### Building the Economic Resources of Households

The extent to which families can mitigate the consequences of HIV/AIDS depends a great deal on the state of their household economy before, during, and after they are affected. Although some households have enough resources to cope effectively with HIV/AIDS (Over 1998), in general, reducing the economic vulnerability of poor households can increase their ability to cope with future crises and to participate in community-created safety nets. When families who are poor (but not destitute) are given economic support *before* they are hit with the worst effects of HIV/AIDS, they are often able to slow their economic descent and buy themselves enough time to devise adequate coping strategies.

Assisting poor households not yet affected by HIV/AIDS also benefits others in the community, by increasing the likelihood that these households can assist their more vulnerable neighbors or extended family members and by reducing the potential burden on the community safety net. In short, the timing of economic support to households may determine its effectiveness, and the determining factor for targeting support to particular households is their level of poverty.

One of the most effective types of economic support is to provide microenterprise services that improve poor families' access to credit and savings and that facilitate linkages to better markets or sources of raw materials. Such services can strengthen households' earning capacities, enabling them to build up resources that can be liquidated in a crisis. When households can rely on their reserves in a crisis, they are better able to replenish their economies once the crisis is past; when they must instead resort to liquidating productive assets, they diminish their future earning capacities and cannot recover as readily.

#### ***Microcredit Services***

Microcredit can be an effective tool for strengthening the economic resources of families.<sup>7</sup> Loans offered by microcredit programs are deliberately small to attract the poorest households, who typically already engage in short-term, rapid turnover

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<sup>7</sup>"Microcredit" programs are often confused with "microfinance" programs. The latter offer credit and demand-deposit savings and are intended to create bonafide financial services institutions. In contrast, microcredit projects generally do not make savings available on demand; if savings are a feature of such programs, they typically serve as collateral to cover loans in default. Most microcredit programs have been run by NGOs and have offered only small amounts of credit.

trading activities — the very activities most likely to benefit from infusions of small amounts of working capital (see Figure 3). Having an adequate cushion to hedge against loss may encourage these households to initiate higher-risk, higher-return businesses, which further builds household resources (Dunn, Kalaitzandonakes, and Valdivia 1996).

Even so, it is important to note that the primary function of providing economic support directly to the poorest households is to mitigate poverty, not to create jobs or spur business growth. This is because most poor households are already engaged in some types of income-generating activity before they are affected by HIV/AIDS. In fact, the poorer the household, the more activities they are likely to undertake and the more such activities are characterized by low risk and low returns. When these households are hard-hit by HIV/AIDS — say, by the death of a productive adult or the unexpected arrival of orphans — their response is generally to avoid putting additional pressure on available labor, which is already stretched. For many such households, this means curtailing current income-generating activities, which exacerbates their vulnerability.

In these circumstances, all household resources become focused on basic survival, particularly, acquiring enough food. This makes it extremely unlikely that revenue from the household's income-generating activities will be reinvested, and growth becomes unrealistic. The best the household can hope for is to stabilize current income-generating activities. A literature review and analysis conducted by Freedom from Hunger concludes

poverty lending [microcredit] is unlikely to produce major economic gains for poor households. However, in relative terms, these modest gains seem likely to make very important contributions to household survival, such as income smoothing and insurance against emergencies. And these are precisely the types of livelihood strategies that, if strengthened, are most closely associated with increased household food security and nutritional status. (McNelly and Dunford 1996)

<b>Figure 3. Household Economic Activity</b>				
<b>Poverty Level</b>	<b>Focus of Economic Activity</b>	<b>Type(s) of Business</b>	<b>Growth Potential</b>	<b>Other</b>
Among the poorest, but not destitute	Household survival	Multiple, low-risk activities that generate a steady, albeit small income. Activities vary seasonally, particularly in rural areas.	Little or none	Working capital is in constant danger of being eroded in the face of crises.
The owner's household is poor, but not as vulnerable as the poorest.	Microenterprises with small sales volume, which provide cushion for working capital in case of unexpected need	Few activities that carry higher risks and offer better returns	Reinvestment possible, but growth difficult	Likely to have some inexpensive, fixed assets. May employ one or two people.
Stable: not very vulnerable to risk	Small Enterprise	Concentration on a single business with significant (relatively) fixed assets	Growth is an important objective; a strong sales volume is necessary to reinvest profits to sustain growth.	Quality production and management skills are required. Employ several people from outside household.

This is consistent with findings in other countries. A study carried out by the International Food Policy Research Institute (IFPRI) in Malawi found evidence that improving access to credit has a positive effect on food security for the “poorest of the poor” (IFPRI 1996). Clients of the Group Guaranteed Lending and Savings (GGLS) program<sup>8</sup> in Malawi said that they were able to add meat, fish, or chicken to the maize that comprised their meals. They could afford also to purchase soap, salt, sugar, and school supplies and clothes for the children in their households. At least two women in the GGLS program were able to employ casual laborers either to tend their gardens or help market their products, which they said allowed them to spend more time at home with their children and to concentrate on improving their businesses.

Many development experts agree that the most appropriate programs for assisting families and communities affected by HIV/AIDS are those that are cost-effective, self-sustaining, and relatively easy to scale up to meet large and rapidly growing needs (Godwin 1997; Hunter and Williamson 1997). Microcredit programs are therefore a particularly appropriate response because, if implemented and managed according to state-of-the-art principles, they can be expected to achieve operational and financial self-sufficiency. In addition, scaling up such programs can improve their cost-effectiveness by reducing the transaction costs per loan.

Moreover, microcredit services are particularly appropriate for HIV/AIDS programs because such services are usually deliberately “packaged” to attract women clients, whom worldwide experience has shown to be creditworthy and to have excellent repayment rates. Providing microcredit to women is effective for two reasons:

- # Women-headed households generally experience the most severe distress as a result of HIV/AIDS.

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<sup>8</sup>GGLS was a feature of the COPE I Project of Save The Children Fund/US. COPE I's target households were families keeping orphans (children who had lost one or both parents), families headed by grandparents or elderly women that included orphans, adolescents caring for children, and single women or widows alone caring for children or people terminally ill or frequently ill. Although the GGLS component did not exclude other households, the majority of its clients were from this group. Solidarity groups were screened to ensure that loan recipients had no outstanding loans elsewhere, that they were not unable to run a business because of poor health, old age, or lack of business skills, and that they were not relatively well-off. A mid-term review of the project found that 68 percent of GGLS recipients were in target households. See Williamson and Donahue (1996).

- # Women are most likely to direct resources to fulfill children's needs and to maintain household food security.

Despite their promise, however, microcredit programs are extremely challenging to implement. To be successful, they must incorporate state-of-the-art methodologies and adhere to very high standards. Program managers must not accept low repayment rates, which may send a mixed message to borrowers — if borrowers see some people default, they begin to question why they should struggle to repay. Poor repayment rates also erode the capital available for further lending, jeopardizing the sustainability of the program.

Program designers should recruit specialized microcredit institutions, and the programs should be implemented without subsidies. Experience has shown that subsidizing such credit projects makes them unacceptably expensive and that many of the institutions that require subsidies to run such programs are unable to survive in a market environment when the subsidies are withdrawn.

The ideal partner institution for the microcredit component is one that:

- # packages loan products specifically to attract the poorest people in the community
- # emphasizes the mobilization of savings and creation of emergency funds or insurance schemes
- # attains high repayment rates (95 percent at minimum)
- # delivers credit through solidarity groups
- # charges market interest rates or higher for loans
- # is committed to attracting women clients
- # requires no collateral outside of a group guarantee and/or enforced savings
- # requires no compulsory business skills training.<sup>9</sup>

Microcredit programs do have their limitations, however. Many people believe that they place inordinate debt burdens on poor households. Others fear that they can

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<sup>9</sup>This does *not* include training that the organization requires to explain the procedures and policies of the sponsoring institution; in fact, more thorough training of this type at the outset ensures better repayment rates later.

create a poverty trap, where households' small profits go to repay credit instead of reinvesting for business growth (Berger and Buvinic 1989). Nevertheless, microcredit programs are among the few microenterprise services that are demand-sensitive and that have proven to increase poor households' incomes in a cost-effective manner. Given the often severe economic impact of HIV/AIDS and the limited resources available to many households to mitigate them, it is the recommended tool for stabilizing household economies in communities affected by the epidemic.

### ***Savings Mobilization Programs***

Savings mobilization programs (i.e., savings schemes or savings-led credit initiatives) can help households for which credit is inappropriate. These include poorer households and those in rural and remote areas whose income may be seasonal or unpredictable. Such households generally rely on in-kind savings to stabilize their income throughout the year, such as livestock or stored crops that can be sold later, although many also save cash within their homes. Helping such households build their savings can help them reduce their economic risks and enhance their ability to cope with loss by enabling them to liquidate their reserves in a crisis, rather than productive assets on which their future income-earning ability may rely.

While savings mobilization programs may be more appropriate than offering credit, managing such programs can be more complicated (Christen, Rhyne, et al. 1995). For some projects that offer both credit and savings, the savings components serve primarily as buffers against defaults and, consequently, are not available to depositors on demand, limiting the effectiveness of such programs as risk-reduction and loss-management strategies.

One option is to promote informal rotating savings and credit associations (ROSCAs), perhaps through CBOs. ROSCAs are a traditional means by which a group of ordinary people (rich or poor) can mobilize and pool savings. The group, which can be any size, must simply agree on and abide by the following:

- # the amount of money each member will save
- # the regularity with which the money will be saved
- # the schedule for rotating the cumulative savings to each member of the group.

These traditional savings mechanisms exist in one form or another all over the world. In Africa, there are *tontines* in Francophone countries, *susus* in Ghana, *merry-go-rounds* in Kenya, *chilembas* in Zambia, and *stockveldt* in South Africa.

### ***Building Market Linkages***

Households that are focused on meeting their basic household needs through survival business are most concerned about increasing the amount of cash they bring in. One way to help them meet this goal is to assist them in building or improving their linkages to markets that are growing or to sources of raw materials that are more economical.

Traditional business training programs often neglect these sorts of external skills, focusing instead on improving the internal efficiency of a business (e.g., by improving accounting skills). However, this is a relatively new area of microenterprise services, and there are very few organizations with specialized experience in providing this type of training or support.

In summary, microenterprise services can augment the risk-reduction and loss-management strategies of households, strengthening their ability to cope with the effects of HIV/AIDS. Nonetheless, households affected by HIV/AIDS are extremely sensitive to increased demands on available labor, and those that are hard-hit by HIV/AIDS may become unable to run any kind of business activity, or even to work in their gardens or farms. The survival of these households may be immediately threatened, and relief assistance provided through a community-generated safety net becomes more appropriate than direct economic support.

### **Supporting the Creation of Community Safety Nets**

In many communities heavily impacted by HIV/AIDS, the safety net that keeps many families and households from destitution is comprised of material relief, labor, emotional support, and other assistance provided by community-based organizations. CBOs typically fund their activities through intermittent, one-time fund-raising projects that do not interfere with individual livelihoods. The projects range from simple cash or in-kind donations scraped together from within the community, to sophisticated, formal events like raffles or the creation of a foundation. Here are some examples:

# Communal fields for agricultural production for income or food



- # Engaging in paid labor and donating the wages to those in need or to the organization
- # Soliciting contributions from community members
- # Fundraising raffles, sponsored walks, entertainment shows, soccer matches, bake sales
- # Community-run microenterprises
- # Linkage to business clubs, civic organizations, religious groups, employee or employer unions, NGOs, national charitable organizations, and government initiatives. (Hunter and Donahue 1997; Williamson and Donahue 1996)

### ***Tapping Internal and External Resources***

Program planners should assist CBOs in developing strategies to tap local and external resources to fund their activities. These strategies should be continually evolving to avoid depending on one type of fund-raising activity or one group of donors, either local or international.

One worthwhile approach is to create various mechanisms through which CBOs can connect to the private sector to solicit donations or conduct joint fund-raising activities. In Uganda, for example, the Community Based Association for Child Welfare developed a “grants bank,” through which large donors provided small amounts of funding (Hunter and Williamson 1997). In Zambia, the National AIDS, Sexually Transmitted Infection, Tuberculosis, Leprosy Program (NASTLP) found the National Federation of Employers willing to provide support for programs to mitigate the impact of HIV/AIDS. Other Zambian organizations also expressed interest in supporting community-based responses to the epidemic, including the military, the Farmer’s Cooperative Union, and some large corporations, although they need technical direction (Hunter and Williamson 1997).

Unfortunately, the needs in many communities affected by HIV/AIDS are too great to be met through modest, traditional fund-raising activities. Many CBOs therefore initiate externally funded, community-run microenterprises to finance their activities, often with the encouragement of, or at the request of, international donors and/or NGOs. These projects may require significant capital investment and high-quality production and management skills (such as grain mills or tailoring enterprises), or they may require only limited working capital and rudimentary management skills (such as petty trading activities or scone-making).

However, it is unclear whether community-run microenterprises represent an effective, long-term means to raise funds. Communal businesses are notoriously risky endeavors; it is enormously difficult for them to generate significant profits; and they frequently require management skills that are unavailable within the community. In addition, the time and effort necessary to generate the funds may detract community members from carrying out the very activities the microenterprises are meant to finance. Hiring a manager only partially resolves this issue, because the manager's salary cuts into the available funds. Project designers therefore must carefully consider the extra burden that such activities may place on household labor in communities heavily burdened by HIV/AIDS.

It is also unclear whether external funding (i.e., grants) is an effective way to support spontaneous community responses to HIV/AIDS. While external funding can strengthen such efforts, it can also compromise them by diluting community ownership of such projects. The key to building sustainable community development is participation, which requires that members of the community genuinely consider it in their best interest to take primary responsibility for solving a particular problem. When external funding is available, it is difficult to ascertain whether a community is motivated by the need to solve the problem or by the promise of funds. Also, there is a danger that the community will lose interest in the activity when funds run out. Finally, when external funding is the mobilizing force behind a community-run microenterprise, the people involved may focus more on the financial aspects of the microenterprise than on the non-financial issues that determine the overall effectiveness of the response to those affected by HIV/AIDS, including consciousness-raising or the provision of psychosocial support or home-based care.

Program planners should also give attention to the need for mobilization skills (Hunter and Donahue 1997). Those community groups that serve as a catalyst or "lightning rod" around which other members of the community can rally tend to be the most successful. Such groups can play a facilitating role for community participation in HIV/AIDS programs, which is critical, because no community group, no matter how dedicated or energetic, can create a truly resilient safety net without wider participation from within the community. A group that simply gives orders or bribes community members with external resources can create an impression that community members are working for the group, not for themselves. Eliciting community participation requires specific skills; it is rarely intuitive.

In summary, support for community groups that provide a safety net for those affected by HIV/AIDS should emphasize the means by which these groups have

traditionally generated income. These generally involve donations or intermittent fund-raising activities that utilize skills and resources readily available within the community. More complex income-generating projects, such as microenterprises, may be less successful and sustainable, for a variety of reasons, including because they may require skills and/or technical assistance unavailable within the community, because they may involve more sophisticated project designs, or because they may inhibit the type of community participation that is critical to the success of such efforts.

### ***Stimulating Community Responses***

When seeking to develop community safety nets, program planners should concentrate first on creating awareness about the impact of HIV/AIDS and then on galvanizing community responses to help mitigate the consequences. They should act as catalysts and facilitators, looking first to use participatory development techniques that emphasize the community's (as opposed to outside planners') analysis of the impact of HIV/AIDS. Such techniques help communities devise their own responses, including targeting whom, specifically, will receive assistance.

Generally, communities target the households about which they are most concerned, which tend to be the most vulnerable in the community. It is important to acknowledge that community members are the best placed to determine who is most vulnerable and where assistance should be targeted.

Raising awareness about the impact of HIV/AIDS should be directed toward mobilizing community groups to take on the types of activities that create a safety net for the most vulnerable households. Planners should design projects that develop the skills the community groups need to carry out these activities rather than projects that implement the activities themselves. Developing the skills needed to mobilize community participation and ensure a sustainable source of funds are especially critical.

## **CONCLUSIONS**

The socioeconomic burden of HIV/AIDS is felt first by the families of those stricken, and so the first line of response should be to mitigate the impact on those households by improving their income-earning capacities. When families are no longer able to cope, however, they turn to members of their community. In turn, a resilient community safety net is built by people who are willing and able to

volunteer their time and resources to assist others. Building the economic resources of households and supporting the creation of community safety nets therefore represent complementary and interrelated aspects of an effective response.

Programs to build the economic resources of households should focus on provision of microenterprise services, specifically microcredit programs, but also savings mobilization programs and programs to build or improve market linkages. Such programs mitigate the effective of an HIV/AIDS epidemic by:

- # Maintaining or increasing small but steady income flows to poor households, which improves food security and nutritional status
- # Providing households an opportunity to acquire savings that are secure, easy to liquidate, and relatively stable in value
- # Enabling households affected by HIV/AIDS to avoid irreversible coping strategies that reduce future income-earning potential and destroy productive capacity
- # Better enabling households to share resources with others in the community, which strengthens the community safety net.

Programs to build the economic resources of households should incorporate state-of-the-art methodologies and should be operationally separate from activities designed to strengthen community safety nets. Since the two types of services involved — microenterprise services and HIV/AIDS prevention and care activities — require specific expertise, it is preferable to involve organizations that specialize in delivering microenterprise services and those that specialize in implementing HIV/AIDS prevention and care projects.

Although these two technical assistance activities should be operationally separate, the strategies that underlie them must be conceptually joined. Overall program design should be a collaborative effort among those involved in both aspects, particularly in three areas:

- # Defining the desired impact of microenterprise services: For HIV/AIDS-affected communities, the desired impact of such program interventions should be to assist households in reducing their exposure to economic risk and improving their ability to cope once a loss has occurred. Microenterprise services are an integral part of such interventions and should be available to all households that are poor (but not destitute), regardless of

- whether they have been affected by HIV/AIDS. The intent is to increase poor households' income-earning and investment capacities, as opposed to promoting business growth or job creation. Other worthwhile outcomes would be improvements in food security and children's school attendance.
- # Determining how to monitor and evaluate the impact of these programs: Most microcredit programs do not measure impact at the household level, because doing so would add enormous costs and jeopardize future sustainability. Instead, they monitor the financial performance indicators that determine their long-term sustainability, including the size of loans, depth of scale, geographic outreach, and loan volume. Clients' willingness to pay for such services is considered proof that the program has a favorable impact at the household level.
  - # Packaging loan products to best serve the target clients: The desired targets of such program interventions are the poorest (but not destitute) households in the community, because they are the most economically vulnerable to HIV/AIDS. In microcredit programs, loan size is a proxy for how far loans reach into the poorest segment of the population (commonly referred to as the program's "depth of scale"), with smaller loans indicating a poorer clientele. Loans in amounts below US\$300 "are categorically assumed to be reaching the poorest borrowers" (USAID 1988). Therefore, to ensure that the appropriate people gain access to credit, loan sizes should be small. Some projects also add other criteria to determine who is eligible for loans. For example in Malawi, the Ministry of Women and Youth Community Services collaborates with a local financial institution to gain access to credit for women. Members of solidarity groups receiving loans cannot be earning regular, formal sector wages and must meet any two of the following criteria: caring for orphans, food security lasting less than 12 months, single-person-headed household, and engaging in piecework for income.

## Annex A: References

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## Annex B: Acronyms

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Below is a list of the acronyms used in this report.

AIMS	Assessing the Impact of Microenterprise Systems Project
CBO	Community-based organization
GDP	Gross domestic product
GGLS	Group Guaranteed Lending and Savings
HDI	Human Development Index
HIID	Harvard Institute for International Development
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome
HTS	Health Technical Services Project
IFPRI	International Food Policy Research Institute (IFPRI)
NASTLP	National AIDS, Sexually Transmitted Infection, Tuberculosis, Leprosy Program (Zambia)
NGO	Nongovernmental organization
ROSCA	Rotating savings and credit association
STI	Sexually transmitted infection
UNDP	United Nations Development Programme
USAID	United States Agency for International Development



## **Annex C: Prevention and Care Dynamic of Economic Support Interventions**

**Figure 4. Prevention and Care Dynamic of Economic Support Interventions**

Intervention	Immediate Beneficiary	Primary Benefit	Mitigating Effect	Prevention Benefit
Build the economic resources of households through microenterprise services	Poor households that are not destitute, regardless of whether they have been affected by HIV/AIDS	Reduces economic vulnerability of poor households to the effects of HIV/AIDS, making them better able to cope with crises	<p><b>P</b> Improves income flows to poor households, improving food security and nutritional status</p> <p><b>P</b> Enables households to build up resources that can be used in crises</p> <p><b>P</b> Prevents households from liquidating productive assets</p> <p><b>P</b> Enables households to undertake higher-risk, higher-return economic activities</p> <p><b>P</b> Better enables households to share resources with others in need and participate in community safety net</p>	<p><b>P</b> Prevents households from become destitute, which can increase members' risks of HIV infection through poor nutrition, migration or commercial sex work undertaken to earn income</p> <p><b>P</b> Frees labor and resources that can be used to care for children</p>
<b>P</b> Microcredit services	<b>P</b> Poor households, especially those engaged in low-risk, low-return income-generating activities	<b>P</b> Mitigates poverty; strengthens households' earning capacities		
<b>P</b> Savings mobilization programs, such as rotating savings and credit associations (ROSCAs)	<b>P</b> Poor households for which credit is inappropriate, particularly those in rural and remote areas whose income is seasonal or unpredictable	<b>P</b> Stabilizes household income; builds household savings (in kind or in cash)		
<b>P</b> Build and improve market linkages	<b>P</b> Poor households focused on basis survival	<b>P</b> Improves income-earning capacity by linking households to growing markets and to more economical sources of raw materials		

**Figure 4. Prevention and Care Dynamic of Economic Support Interventions**

Intervention	Immediate Beneficiary	Primary Benefit	Mitigating Effect	Prevention Benefit
Support creation of community safety nets	Community-based organizations (CBOs) engaged in activities to provide relief to households affected by HIV/AIDS	Ensures the economic survival of households that have become destitute	<p><b>P</b> Mobilizes community response to HIV/AIDS</p> <p><b>P</b> Provision of day care for children</p> <p><b>P</b> Home visits for affected families</p> <p><b>P</b> Material relief, care, labor, and moral support for affected households</p>	<p><b>P</b> Reduces poverty, which can increase the risk of HIV infection</p> <p><b>P</b> Keeps children in school, improving their long-term economic prospects</p> <p><b>P</b> Prevents breakup of destitute households</p> <p><b>P</b> Prevents a breakdown of cohesion within communities, which can weaken traditional restraints on promiscuity</p>
<b>P</b> Tap internal and external resources	<b>P</b> CBOs	<b>P</b> Ensures sustainable funding for relief activities		
<b>P</b> Stimulate community responses to HIV/AIDS	<b>P</b> CBOs	<b>P</b> Builds participation in efforts to provide assistance to vulnerable community members		